

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF SOUTHSIDE WATER)	
ASSOCIATION FOR AN ADJUSTMENT OF)	
RATES PURSUANT TO THE ALTERNATIVE)	CASE NO. 94-253
RATE FILING PROCEDURE FOR SMALL)	
UTILITIES)	

O R D E R

On November 10, 1994, Southside Water Association ("Southside") filed its application for Commission approval of proposed water rates. Commission Staff, having performed a limited financial review of Southside's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 15 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have no more than 15 days from the date of this Order to provide written comments regarding the attached Staff Report or requests for a hearing or informal conference. If no request for a hearing or informal conference is received, this case will be submitted to the Commission for a decision.

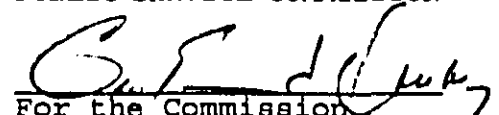
Done at Frankfort, Kentucky, this 9th day of February, 1995.

ATTEST:



Executive Director

PUBLIC SERVICE COMMISSION


For the Commission

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF SOUTHSIDE
WATER ASSOCIATION FOR A
RATE ADJUSTMENT

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CASE NO. 94-253

STAFF REPORT

Prepared By: Jack Scott Lawless, CPA
Public Utility Financial
Analyst
Water and Sewer Revenue
Requirements Branch
Financial Analysis Division

Prepared By: John Geoghegan
Public Utility Rate
Analyst
Communications, Water
and Sewer Rate Design Branch
Rates and Research Division

STAFF REPORT
ON
SOUTHSIDE WATER ASSOCIATION
CASE NO. 94-253

On November 10, 1994, Southside Water Association ("Southside") filed an Alternative Rate Filing Form with the Kentucky Public Service Commission ("Commission") seeking approval to establish an annual membership fee of \$25 that would be charged to all members. The 1993 Annual Report Income Statement was used as the basis for the establishment of this rate. In order to review Southside's application, Staff performed a limited financial review of Southside's 1993 operations.


The scope of the review was limited to obtaining information as to whether the test period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.


Scott Lawless of the Commission's Division of Financial Analysis performed the limited review on December 13, 1994. Mr. Lawless is responsible for the preparation of this Staff Report except for the determination of Normalized Operating Revenue, Rate Design, and Attachment C, which were prepared by John Geoghegan of the Commission's Division of Rates and Research.

A copy of Staff's Adjusted Net Operating Income Statement is shown on Attachment A. Attachment B details the revenue requirement determination. Staff recommends that Southside's requested membership fee be disallowed since membership fees are nonrecurring charges and not designed to recover long-term debt. Staff recommends increasing the

minimum bill of Southside's current rate structure in order to recover this cost. The recommended rates result in an increase in annual operating revenues of \$12,150. Southside's recommended rates are shown in Attachment C of this report.

Signatures


Prepared By: Jack Scott Lawless, CPA
Public Utility Financial
Analyst
Water and Sewer Revenue
Requirements Branch
Financial Analysis Division


Prepared By: John Geoghegan
Public Utility Rate Analyst
Communications, Water
and Sewer Rate Design Branch
Rates and Research Division

ATTACHMENT A
STAFF REPORT CASE NO. 94-253

SOUTHSIDE WATER ASSOCIATION
STATEMENT OF OPERATIONS

	<u>Test Year</u>	<u>Adjustments</u>	<u>Ref.</u>	<u>Pro forma Present Rates</u>
Operating Revenues				
Water Sales	\$138,883			\$138,883
Other Operating Revenue	<u>10,015</u>	<u>0</u>		<u>10,015</u>
Total Operating Revenues	<u>148,898</u>	<u>0</u>		<u>148,898</u>
Operating Expenses				
Operation and Maintenance				
Salaries and Wages	26,855	(908)	(A)	25,947
Purchased Water	70,454			70,454
Purchased Power	2,419			2,419
Materials and Supplies	7,709	(222)	(B)	7,487
Contractual Services	485	1,323	(B)	1,808
Rents	300			300
Insurance	2,300	(688)	(B)	1,612
Miscellaneous	<u>32,912</u>	<u>(22,526)</u>	(B)	<u>10,386</u>
Total O&M	143,434	(23,021)		120,413
Depreciation	9,204			9,204
Taxes Other Than Income	<u>2,619</u>	<u></u>		<u>2,619</u>
Total Operating Expenses	<u>155,257</u>	<u>(23,021)</u>		<u>132,236</u>
Net Operating Income	<u>\$ (6,359)</u>	<u>\$ 23,021</u>		<u>\$ 16,662</u>

- A. Salaries and Wages
Staff adjusted test year salaries and wages to reflect the current utility payroll expense.
- B. Review Adjustments
As a part of Staff's review, the expense accounts in the 1993 Annual Report were analyzed. For 1993 there were no ledgers or disbursement journals kept which could be traced to the annual report expense balances. It is Staff's understanding that the office manager totaled the 1993 check stubs to calculate the account balances when filling out the Annual Report but did not maintain workpapers showing which checks were charged to each account. Therefore, in order to test the reasonableness of the reported expenses, Staff was required to compile its own Income Statement from the same check stubs. These adjustments resulted from that compilation.

ATTACHMENT B
STAFF REPORT CASE NO. 94-253

SOUTHSIDE WATER ASSOCIATION
REVENUE REQUIREMENT DETERMINATION

Annual debt service payments	\$ 24,449
Times: Debt Service Coverage Required	<u>120%</u>
Coverage Requirement	29,339
Plus: Adjusted Operating Expenses	<u>132,234</u>
Revenue Requirement	161,573
Less: Other Operating Income	(10,015)
Normalized Water Sales	<u>(138,883)</u>
Revenue Deficiency	<u>\$ 12,675</u>
Amount Requested	<u>\$ 12,150</u>

ATTACHMENT C
STAFF REPORT CASE NO. 94-253

Staff recommends that Southside recover an additional \$12,150 annually. Southside's current minimum bill has been increased by \$2.09, which will yield the required amount of revenue.

Recommended Rates

First 2,000 gallons	\$16.47 (Minimum Bill)
Next 4,000 gallons	6.24
Next 4,000 gallons	5.24
Next 15,000 gallons	4.74
Next 25,000 gallons	4.49
Over 50,000 gallons	4.04